RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

Since 1958 •

Post Office Box 1759, La Jolla, California 92038

26 Letters Per Year • $250 annually

Dec. 18, 1996 **LETTER 1215**

THE MARKET: In the last Letter (page 1) I asked, "You have to wonder what in God's name Alan Greenspan is thinking about." On December 5 (after the market closed) we found out. Greenspan, in his usual ridiculously convoluted statement, said that the Fed wouldn't care that much about "a collapsing financial asset bubble" if it didn't hurt the economy. So what Greenspan obviously would like is a nicely behaving market and a nicely behaving economy -- all without the Fed having to raise rates or margins. Can anyone blame him?

Down went the market on December 6, down 143 points at the worst, but a late recovery saw the Dow close down 55 points. To me, the **most interesting part of the whole situation** was the global phenomenon. Markets throughout the world tumbled along with the Dow. So one thing is clear -- the **nerve center** of the world's stock markets is located down on Wall Street. If our market rises, most markets will rise with it. But if our market tumbles -- ALL the world's markets will "take the gas" along with the NYSE.

Best of Times: In my opinion, the euphoria enveloping investors has reached monumental proportions. And it's hard to blame investors for their enthusiasm. Consider the following, which I'll call the "Heavenly Dozen": **(1)** The baby boomers are now entering their peak earning years, creating billions of dollars in new wealth. **(2)** New technologies are springing up everywhere, and the computer and the Internet are sending information to every corner of the world. **(3)** The biotech revolution is in full bloom, creating hundreds of new companies and happily lengthening the human life span. **(4)** Communism has collapsed, and once again the US is the undisputed world's greatest power. **(5)** The under-developed half of the world is now rapidly coming into its own, bringing in millions of potential new consumers. **(6)** There is little or no chance of war among the leading world powers. **(7)** Almost every industrialized nation in the world (even including Switzerland and Germany) is loosening constraints on the creation of money, and a good deal of this newly-created money is pouring into the stock markets of the world. **(8)** Deregulation and privatization is the order of the day, both in the US and throughout Europe and Asia. **(9)** With a political stalemate between the President and Congress probable in the US, it is also probable that economic damage from politicians will be held to a minimum. **(10)** Inflation, at least according to our government, is holding at low levels. **(11)** Unemployment at 5.4% is still fairly low, but not so low that it will ignite inflation. **(12)** Last but not least, the Dow, incredibly, has not suffered as much as a 10% correction (on a closing basis) in over six years. On top of this, the stock market has not experienced a primary bear market in 22 years. Thus we are seeing the "most uncorrected" bull market in Wall Street history.

The remarkable convergence of all these factors has obviously generated a level of bullishness among investors that has no parallel in US history. Ah, but Russell, as usual, must play the part of the iconoclast via this little warning: "When conditions can't get any better, they can only get worse." Which is just another way of saying that once the market has discounted the very BEST that can be seen ahead, a bear market is ready to begin.

Are we there yet? Is the bear about to wake up from his 22-year hibernation? That's the multi-trillion dollar question, and at this point I can't give you the answer. Under Dow Theory, a trend

Dec. 6 DJIA 6381.94; PTI 4731; A-D Ratio +2.38
Dec. 13 DJIA 6304.87; PTI 4727; A-D Ratio +2.01
Dow Yield: 2.09%; Dow Price/Earnings: 18.2
Dow 144-day MA: 6104; Dow 34-day MA: 6305
Dow Times Book Value: 4.72; PTI 89-day MA: 4661
Percentage of Undervalued Blue-chips: 4%
Gold 200-day MA: 388.32; Gold-PTI: 256

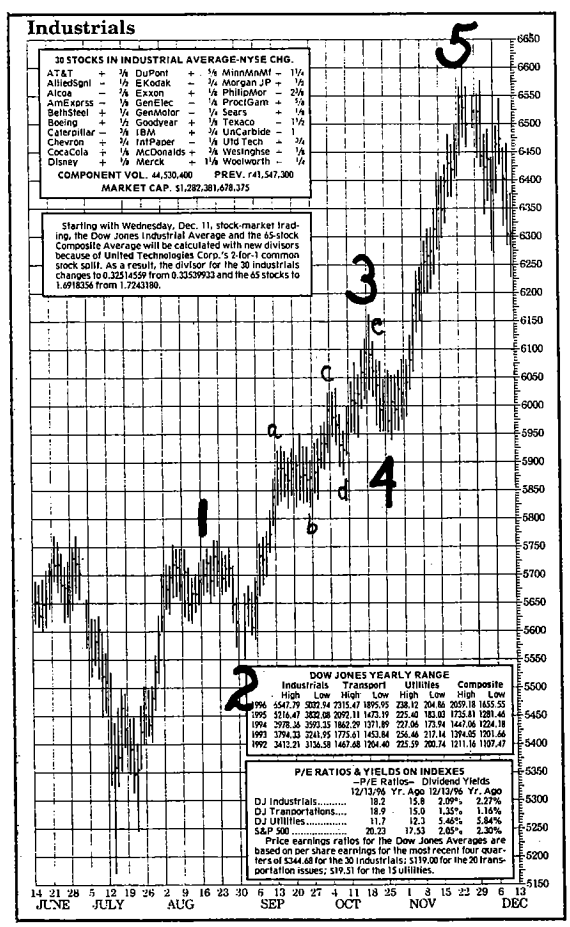
remains in force until *proved otherwise.* The prevailing trend of the market is bullish, and I don't have any "otherwise" at this writing.

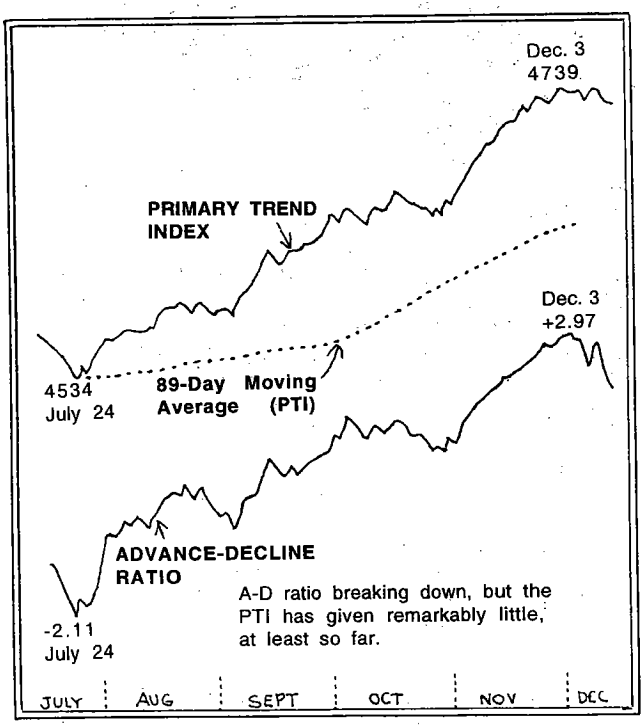
Older readers should know by now that I place very little credence on the forecasts and predictions of economists and assorted "experts." For that matter, I usually don't pay much attention to the forecasts of my fellow advisors in this business.

This is a solitary, lone-wolf business, and the only guru I follow is the market itself. In this business you must deal with two never-ending questions: (1) what is the prevailing market trend; and (2) how much of the forthcoming economic picture has the stock market *already discounted?*

Analysts have an ingrained habit of being influenced by the most recent statistics and market action. "If business is good, well, it's going to continue good." If the market has been going up for two or three years, "Why, it will probably continue to go up for another two or three years."

As Charles Dow so succinctly put it almost a century ago, *"The one fact pertaining to all conditions is that they will change."*


Industrials
30 STOCKS IN INDUSTRIAL AVERAGE-NYSE CHG.
AT&T + 3/8 DuPont + 1/8 MinnMnMf − 1 1/4
AlliedSgnl − 1/2 EKodak − 3/4 Morgan JP + 1/2
Alcoa − 1/4 Exxon + 1/8 PhilipMor − 2 1/8
AmExpress − 1/8 GenElec − 1/8 ProctGam + 1/8
BethSteel + 1/4 GenMotor − 1/4 Sears + 1/8
Boeing + 1/2 Goodyear + 1/8 Texaco − 1 1/2
Caterpillar − 3/8 IBM + 3/4 UnCarbide − 1
Chevron + 3/4 IntPaper − 1/8 Utd Tech − 3/4
CocaCola + 1/4 McDonalds + 3/8 Weinghse − 1/8
Disney + 1/8 Merck + 1 1/8 Woolworth − 1/2
COMPONENT VOL. 44,530,400 PREV. 41,547,300
MARKET CAP. $1,282,381,678,375
Starting with Wednesday, Dec. 11, stock-market trading, the Dow Jones Industrial Average and the 65-stock Composite Average will be calculated with new divisors because of United Technologies Corp.'s 2-for-1 common stock split. As a result, the divisor for the 30 industrials changes to 0.32514559 from 0.33539933 and the 65 stocks to 1.6918356 from 1.7243180.
DOW JONES YEARLY RANGE
Industrials Transport Utilities Composite
High Low High Low High Low High Low
1996 6547.79 3022.94 2315.47 1895.95 238.12 204.86 2059.18 1655.55
1995 5216.47 3832.08 2092.11 1473.19 225.40 183.03 1735.81 1281.46
1994 3978.36 3593.35 1862.29 1371.89 227.06 173.94 1447.06 1224.38
1993 3794.33 2241.95 1775.61 1453.84 256.46 217.14 1396.05 1201.66
1992 3413.21 3136.58 1467.68 1264.40 225.59 200.74 1211.16 1107.47
P/E RATIOS & YIELDS ON INDEXES
—P/E Ratios— Dividend Yields
12/13/96 Yr. Ago 12/13/96 Yr. Ago
DJ Industrials..... 18.2 15.8 2.09% 2.27%
DJ Transportations.... 18.9 15.0 1.35% 1.16%
DJ Utilities..... 11.7 12.3 5.46% 5.84%
S&P 500..... 20.23 17.53 2.05% 2.30%
Price earnings ratios for the Dow Jones Averages are based on per share earnings for the most recent four quarters of $344.68 for the 30 industrials; $119.00 for the 20 transportation issues; $19.31 for the 15 utilities.
14 21 28 5 12 19 26 2 9 16 23 30 6 13 20 27 4 11 18 25 1 8 15 22 29 6 13
JUNE JULY AUG SEP OCT NOV DEC
6650 6600 6550 6500 6450 6400 6350 6300 6250 6200 6150 6100 6050 6000 5950 5900 5850 5800 5750 5700 5650 5600 5550 5500 5450 5400 5350 5300 5250 5200 5150



But change is very difficult for the average person to envision, particularly during a long period in which a specific trend has been in force. This is particularly true during a bull market when the wish can easily become father of the thought. During an extended bull trend, people tend to prosper, and it is normal to hope that the good times will last forever. Furthermore, during an extended bull trend it is extremely difficult for the average person to accept or even to understand that every bull market and every bear market contain the "seeds" of their own destruction.

Regarding the third or final phase of a bull market, Robert Rhea, the great Dow Theorist of the 1930s, wrote, *"The final stage of a bull market is sometimes recognizable because people then buy stocks simply because they are going up, or because other people are buying. They consider it old fashioned to regard earnings or prospects. Speculation is rampant. In-and-out traders exchange their patched pants for gaudy attire and become boardroom oracles. We soothsayers get to explaining why there will never be another bear market. Statisticians look backwards and figure out how it happened."*

I maintain that there's no way to predict the exact day or often even the week when a major bull move has ended. But I also maintain that it is possible to **identify** the time when a major move is over. In other words, there's a **huge difference between predicting and identifying.**

Our job now will be to try to identify when this huge bull move is over, which is another way of asking, "Can we zero in on the area where the stock market has fully discounted the BEST that can be seen ahead?" I think (I hope) we can.

One of the items I'm depending on for trend identification is my **Primary Trend Index (PTI).** When the PTI begins to level off, when it starts to trace out a declining trend, and most certainly when it breaks below its 89-day moving average (see page 2 chart) I will surmise that the bull is finally being torn apart by the bear.

But just how will it end and why? The "why" is easy enough -- the market at its ultimate top will have discounted the best that can be seen ahead. How it will end is more difficult. One of the phenomena that I've found consistent in the market is that "the market will do whatever it has to -- to frustrate (and cost) the greatest number of participants."

For that reason I don't think this huge bull rise will end with a crash. No, I think what we'll see is **erosion** -- a frustrating and complex series of lower tops and lower lows. This type of action will keep the greatest number of investors "in the market and hoping" -- and probably buying more on each decline.

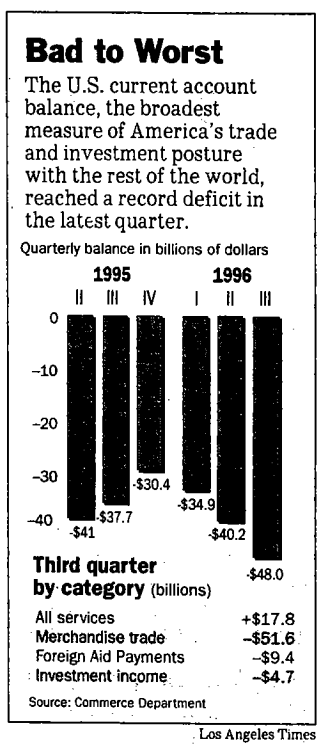
The D-J Industrial Average hit a high of **6547.79** on November 25. The Transportation Average, after seven months of trying, *belatedly* confirmed the Dow by rising to new highs of its own. I wrote in the last Letter that the long-delayed Transport confirmation did not impress me.

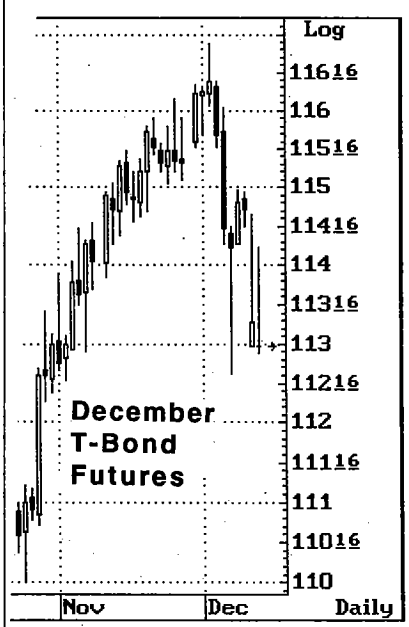
The Dow since July has risen in a perfect five-step Elliott pattern (see page 1 chart from the *WSJ*). This type of five-step pattern often signals the *completion* of a move. Note that wave 3 (2 to 3) breaks down into a-b-c-d-e pattern, and then we have the big surge from 4 to 5. And I ask myself, "Was that the final surge?" We'll see.

THE CURRENT ACCOUNT includes ALL dollar flows (trade, service, interest, profits, etc.) to and from the US. On December 10 the latest (third quarter) US current account statistics were released. They were the worst in history, meaning that more and more dollars are piling up overseas.

The conventional wisdom is that because inflation is low, "interest rates must decline and bonds must go higher." Oh, and furthermore, "there's no way the Fed is going to raise rates, which is just another reason to feel safe about bonds." So far, it hasn't worked exactly that way.

And here's why -- the Japanese have been driving the yen lower in an effort to bolster their sagging economy. The Japanese have been buying huge quantities of US T-bonds; to do this they have created oceans of new yen, thereby driving the yen lower. In fact over the last year the Japanese have bought roughly 75% of ALL the T-bonds our government has issued. But over recent weeks Japan's Finance Ministry has decided that the yen has dropped low enough (as a matter of fact, last week the yen rallied strongly against the dollar). This change in Japanese policy could mean that the Japanese banks will cut back sharply on their buying of T-bonds -- and actually (gulp), they could even start selling T-bonds. The bond market has already discounted this possibility, and last week bonds dropped precipitously. And, of course, if there's anything the stock market is afraid of it's a declining bond market with accompanying rising interest rates.





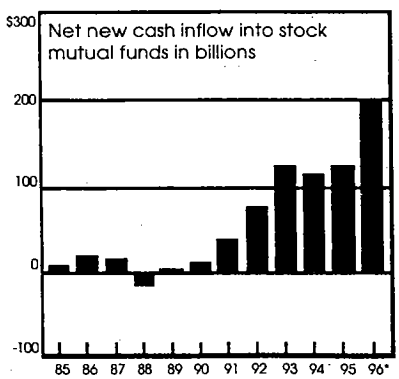
The Japanese situation is interesting from another standpoint. When the Bank of Japan drove Japanese interest rates down to a minuscule 1/2%, it subjected Japanese investors (they had already been killed in the stock market) and savers to a severe squeeze. Japanese households, which had been depending on attractive interest rates, suddenly found their income collapsing. In fact, over the past year it is estimated that loss in interest income has cost the Japanese over $40 billion.

One result is that the Japanese have rushed to buy US bonds or other relatively high yielding paper. Thus, in a strange way the Japanese have exported "their financial bubble" to the US and to other nations. Which brings up the question: what happens if the Japanese become frightened of the US markets and start repatriating some of their money? The result could be a decline in the US dollar, in US bonds and US stocks (a bit of this may be occurring now).

Sentiment: It's always interesting to make note of market extremes. A Louis Harris poll taken a few months ago came up with some statistics worth noting. An amazing 85% of those polled expect market returns in the next 10 years to equal or exceed those of the past 10 years. Furthermore, referring to the next 10 years, 41% do not expect to see a year with the market down 10%, while 78% don't expect a year with a 20% decline. Astounding optimism.

Cash: Another extreme worth noting is current cash as a percentage of total assets in equity mutual funds. Cash is now down to 6.2% of assets, lowest level in 20 years. This means two things: (1) it obviously means a very high degree of optimism on the part of fund managers; and (2) it also means that in the event of a bear market with accompanying redemptions, the funds will be forced to sell stocks to raise cash. Of course, we may never see another bear market, but that 6.2% of cash is something to think about. Ah, well.

A BLOCKBUSTER YEAR



*Estimate through November
Courtesy: The Wall Street Journal

Funds: This chart (courtesy of the *Aden Forecast*) traces the incredible rush by the public into equity funds. This year the total may rise to over $200 billion or an average of $3.8 billion a week. I look at it this way -- housing prices have been sluggish, commodities have been sliding, gold and the precious metals have been heading down. Result -- all the public's available money has been channeled into financial assets. It's been a mania, a gigantic bubble. And all bubbles, sooner or later, either burst or slowly fizzle out.

Those Other Stocks: The conventional wisdom at this juncture seems to be that "the blue-chips have made their move," and now the values are in the secondary stocks, the stocks that have not yet exploded to the upside. In other words, all stocks should do what the Dow has done, but it's just a matter of each group awaiting its turn. Mebbe.

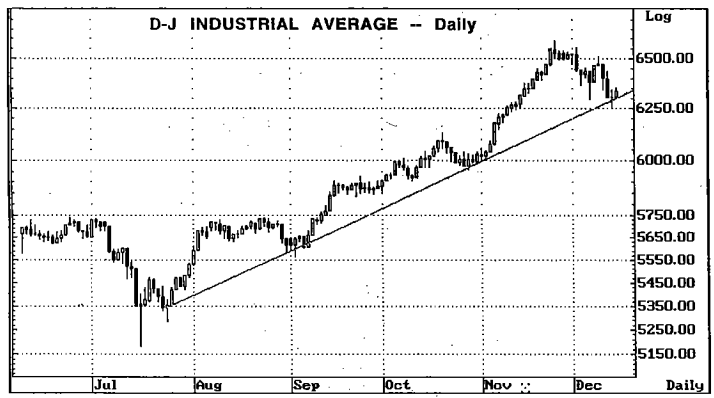
CRITICAL TRENDLINE: Undoubtedly the oldest method of security analysis makes use of the trendline. The trendline I always prefer is the ratio or semi-logarithmic trendline. On the ratio trendline all vertical distances are shown in percentages. Thus a rise from 200 to 400 shows on a ratio chart as exactly the same distance as a rise from 450 to 900 or 3000 to 6000, since all represent 100% rises.

As long as any item holds above a rising trendline the implication is that it is progressing at a specific rate of growth. The longer an item holds above a trendline, the more important that trendline is and the more significant it is if or when that trendline is violated. Obviously, the exact opposite holds true in the case of declining trendlines.

The rise of the Dow from its July low to the present has followed a remarkably steady rate of growth. This is seen in how perfectly the Dow has walked up the bullish trendline shown on this chart.

The recent decline which began on November 25 has taken the Dow back exactly to its rising trendline. Since this trendline has held in force for five months, I consider it quite important. It will be equally important to see whether on this latest decline the Dow can continue to hold above the trendline (which, remember, represents a steady rate of growth).

If the Dow does break, say as low as 6250, I'd say that the bullish trendline has been decisively violated. In that case, expect the market to be in trouble. Otherwise, and as this is written, the Dow continues to respect the rising trendline.



INVESTMENT POSITION: I don't have any actual proof that the bull market is over -- I just feel rather queasy about the action. So as a compromise, I'm putting a very small bull in the box. If the Dow can advance to a new high above November 25's record high of **6547.79**, the bull will get a lot bigger. But until then, you'll have to be satisfied with this stunted little runt of a bull.

If you own good dividend-paying blue-chip stocks, you're receiving historically low returns. Therefore, the only reason to hold these stocks is the hope that they will go higher. In this business, "each person must kill his own snakes," and my common sense tells me that the hope isn't worth the risk.

A subscriber called last week to ask, "Russell, do you have any way of telling us in a hurry whether your Primary Trend Index (PTI) has signaled a bear market?" I told him that the signal, when it finally arrives, won't come overnight. There will be plenty of advance warning.

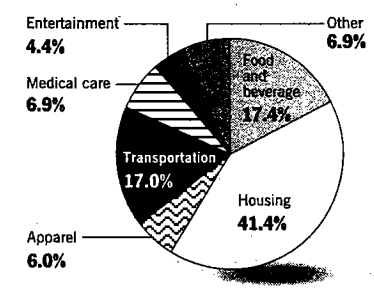
Actually, the PTI hasn't done much on the downside as yet, which is rather remarkable. Let me put it this way -- if this is the bitter end, if the great bull market which began in 1974 is in the process

of expiring, we have a long way (in both duration and extent) to go on the downside. Thus, the PTI will have plenty of time to tell us whether the primary trend of the market is in the process of turning down. So far, as I said, the PTI hasn't flashed any clear danger signals (the first suggestion of danger would be a definite declining trend in the PTI).

NOTES & QUOTES: It's the old story, if you don't like the message, kill the messenger. And if you don't like the deficit, change the way the Consumer Price Index is constructed. The government now claims that the CPI distorts the actual inflation rate by more than 1% on the high side, which, as everyone who is living in America knows, is bunk. For one thing (and it's a huge item) the CPI doesn't take into account federal, state, local or Social Security taxes. If any subscriber believes that his cost-of-living expenses are going down, let me know. Oh yes, Southwest Cable just informed me that my monthly cable charges will be going up. And the *NY Times* just informed me that the price of a subscription is being raised. The San Diego Padres and Chargers just raised the price of their tickets. And apartment rents have been rising all over San Diego. The fact is that the CPI deals with prices of items, *not with the typical American's actual cost of living.* There's a big difference. What's important to you and me is **what we pay out each week** in our never-ending battle to keep up our living standards.

WHAT IS THE CPI?

THE CONSUMER PRICE INDEX *measures the change in the cost of buying a fixed basket of goods and services. On a regular basis, 95,000 items from 22,000 stores are surveyed, as well as 35,000 rental units, to compute the CPI. Here is how the components are weighted.*



SOURCES: Bloomberg Business News, Social Security Administration

* *

A new study out of UCLA states that immigration is transforming the character and economy of Los Angeles, foreshadowing the futures of the rest of America's cities. The report states, "Nowhere can one detect the emerging shape of America better than in Los Angeles." More than one-third of LA's residents are foreign born. "The work-hard-and-get-ahead" ethic behind the American dream is true for only some S. California immigrants, with high-skilled Asian and Middle-Eastern immigrants succeeding and low-skilled Latin American immigrants stuck in the economy's bottom tier." Roger Waldinger, the sociology professor who co-edited the 500-page study, said he hoped that the study would "encourage people to face reality" about immigration: that immigrants are plentiful, they are here to stay, and they will continue to arrive in large numbers no matter what policies are fashioned in the states or in Washington.

* *

Michael Bloomberg is one smart guy, and he's built a fantastically successful business selling information to the securities industry (Bloomberg terminals, statistics, publications, etc.). In the latest issue of *Bloomberg Personal* (his monthly magazine), Michael differentiates between hopes -- and facts. He then talks about Netscape, a company less than two years old with a market cap of about $4.3 billion, selling at 420 times earnings. He compares Netscape with Dow Jones, a great, time-tested company with a market cap of only $2.8 billion -- a billion and a half below Netscape. What's happening here? Next Bloomberg talks about Microsoft with a market cap of above $80 billion. He notes that the market worth of all America's brokerage firms (Merrill, Paine Webber, Dean Witter, Bear Stearns, etc.) is roughly $50 billion. Microsoft is therefore "worth" considerably more than the entire securities industry of the United States. Insanity? Wishful thinking? Or fact?

* *

The Federal Reserve reports that consumer debt (which has reached $1.4 trillion) is growing at an annual rate greater than twice that of wages. Credit card debt has risen to $3,400 per US household from $1,600 a decade ago. Credit card delinquencies are now running at the highest level since the American Bankers Association began keeping such records back in 1974. By the end of this year over one million families will declare bankruptcy, many with multiple credit cards in their pocketbooks or wallets.

Despite this, 2.7 billion credit card solicitations were sent out last year and probably as many this year. Why the eagerness on the part of credit card companies? The answer: the companies charge double digit interest rates. These huge charges more than cover the roughly 4% of dead losses. Interestingly, roughly 40% of all card holders pay their balances in full each month. The industry considers these people freeloaders, even deadbeats, and some card companies are considering annual fees or other techniques to discourage these "interest rate avoiders."

In the meantime, over one million US families will file for bankruptcy this year. What worries experts is that all these bankruptcies are occurring during near-boom times. Says Ford Elsaesser of the American Bankruptcy Institute, *"The rapid increase in consumer bankruptcy filings during a period of economic growth has no precedent in modern times."* Elsaesser says the growth in filings back in the 1980s could be attributed to the real estate crash, high unemployment in parts of the country or major layoffs in manufacturing. *"None of these factors are present today, indicating that the growth in filings may be an early warning signal rather than a natural result of a serious economic downturn."*

Russell comment: A recent article noted that the average American family could not raise $2,000 in cash. This makes me wonder: (1) What will happen when the next recession hits, and (2) where is all the money coming from that is pouring into mutual funds? **Answer to #2:** I would imagine that most of the money comes from a limited number, maybe 20%, of American families. And I would also imagine that a great deal of this mutual fund money is raised via borrowing or transfer of assets from other savings or from weekly or monthly investments directly out of salaries.

* *

The *LA Times* did some original research and concluded, "Getting away with murder is not the exception in Los Angeles County, it is the rule. Only half of all homicide investigations lead to arrests and charges, even though the criminal justice system devotes its best people and significant resources to catching killers. Only a third end with anyone convicted of murder or manslaughter. In a county with almost 2,000 willful homicides annually, the criminal justice system is so overwhelmed that breakdowns are commonplace from crime scene to courthouse . . . Faced with weak cases, prosecutors offer suspected killers plea bargains that, in extreme cases, allow suspects to go free that very day." **Russell comment:** And you thought O. J. was the only one who got away with murder.

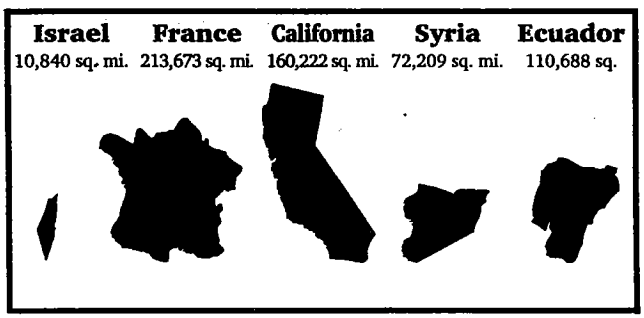
* *

I'm a Jew and wife Faye is a Christian. We kid each other about it, but at Christmas time the situation really turns comical. Why? Because Faye puts me to work hauling up our big synthetic Christmas tree plus dragging up a load of assorted accouterments from the garage. And the conversation goes like this: Russell, "Gee, Faye, maybe I shouldn't have married a shiksa. You've got me hauling all this Christmas stuff around -- I'm afraid I'm gonna get a hernia. Listen, all the Jews do is light a few candles. Why can't you take life easy like the Jews?" Faye answers, "Shut up and get to work!"

Seriously, language and its nuances have always fascinated me. And one of the areas that I've always wondered about is "Jewish" vs. "Jew." Nobody talks about Christian-ish or Catholic-ish. So why Jew-ish? I think it's because the word Jew still carries nasty connotations, whereas Jewish sounds "gentler," more acceptable. The newspapers seldom refer to anyone as a Jew, it's always that he or she is Jewish. A new book just reviewed in the *LA Times* is entitled, "Jewish Power." You can bet it would never be entitled, "Jew Power." Newspapers discuss the Christian coalition, but they'd never refer to the Jew front. To call someone a Jew is a bit questionable, so better to just call him er, ah, Jewish.

* *

Incidentally, I was fascinated by this chart, showing the actual size of Israel compared with four other entities. It's incredible that so much anguish, arguments, anger and so many lives have been lost over such a tiny piece of land. Of course, you and I know that the fighting has much more to do with economics and racial hatred than it has to do with the minute size of Israel.



* *

The Clinton game plan in the face of myriad accusations is clear enough. It works on three tracks. The first is to stonewall. You release documents under subpoena at the last minute -- this so you can avoid contempt of Congress charges or a charge violating court orders. The second step is to delay, hold off, delay and delay, hoping the public will get tired of the whole thing and lose interest or at least hoping that the administration will get through its second term before any guilt can be uncovered. The third tact is to try to discredit the independent counsels, claiming prejudice and political persecution.

The latest is that if special prosecutor Starr cannot prove serious allegations against Hillary Clinton (perjury, obstruction of justice), when they hand down indictments they will call Hillary an unindicted co-conspirator. The thought is that if Hillary is indicted, Clinton will immediately pardon her claiming a political ploy.

Incidentally, Bill Clinton's "legal defense fund" has fizzled out, and the President now owes $2 million to lawyers. But this figure will grow much larger if Starr brings charges against one or both Clintons.

* *

Bye-Bye: New York's famous Russian Tea Room is closed. Back in the '30s and '40s my mother used to meet her friends there for tea and blintzes. A lunch of blintzes and tea in those days cost $1.25. Later the Tea Room became considerably more fashionable and much more expensive, and finally it became a place to be seen by the wealthy or a meeting place for the "in" crowd. Last year restaurateur Warner LeRoy bought the Tea Room, announcing that it would reopen in '97. But Warner either ran out of money or lost interest and the project is now dead. Really too bad, the Tea Room was one of Gotham's great institutions.

* *

Look for increasing pressure to privatize or at least partly privatize the Social Security System. Where will the pressure come from? It will come from Wall Street. The Street is drooling over the prospect of selling individual retirement accounts to millions of Americans. Can it happen? I wouldn't bet against it. Or to put it another way, never bet against the power of money. The one thing that would kill the privatization idea would be, you guessed it -- a bear market.

* *

From our "Wall Street Loves a Bull Market Dept.": This news clip tells the story. The only thing the Street likes better than a bull market is an extended, long-lived bull market. It's got that all right.

> # Big Board Reports 42% Jump in Profit For Third Quarter
>
> *By a* WALL STREET JOURNAL *Staff Reporter*
>
> NEW YORK – The **New York Stock Exchange**, benefiting from one of the best years in stock-market history, said its third-quarter net income jumped 42% to $17.6 million from $12.4 million.

* *

Want to buy a NYC apartment? Madonna has her 7,000-square foot place at 41 Central Park West up for sale (it's a combination of five apartments). Sale price is $8 million. But wait, that doesn't include the maintenance charge.

* *

Just how big are the Chinese stock markets? The Shanghai Stock Exchange has 276 A shares and 42 B shares and trades an average of $383 million a day. The Shenzhen Stock Exchange has 206 A shares and 44 B shares and trades an average of $531 million a day. Hong Kong has 567 different company shares and trades $746 million a day.

* *

The Soviets have boasted all along that they are safe from HIV. It turns out they're not, and HIV is now sweeping through former Soviet states. Says Viktor Zvyagin, deputy mayor of a typical city, Svetlogorsk, "The HIV virus finds the weak spot. In America it was homosexuals. In Africa it was prostitutes. In our city, the weak spot is junkies." HIV is sweeping Svetlogorsk so rapidly that officials say it will infect 90% of the town's 4,000 addicts in the next two years.

* *

The Pack, also known as the Green Bay Packers. The team is uniquely owned by a group of Wisconsin shareholders. The Pack was sold in 1950 for $118,000 to a limited number of shareholders, this to keep it solvent. Later more stock was issued, and today there are 1,915 shareholders. The shares have never paid a penny, but who cares; what the shareholders do care about is a winning team. All 60,000 seats at the Pack's Lambeau Field are owned by season ticket holders; furthermore, there are 27,000 frustrated people on the waiting list (the whole population of Green Bay is only 100,000). So wanted are season tickets that current holders sign up their newborn babies, hoping they will be able to get tickets in their later years (the waiting list is figured at 40 to 45 years).

* *

Listen, I'll admit that NYC is the center of the civilized world, but that doesn't mean that you have to live there. Listen to this -- a two-bedroom apartment in Trump Tower has just changed hands for $1.27 million. The monthly charges are $2,800, not including a garage. Garage spaces go for $300 to $600 a month, plus 18% for the city parking tax. Well, that's an admitted extreme, but living in Gotham is expensive, culturally exciting and a never-ending hassle. So what's the alternative? Easy, subscribe to *The New York Observer* for a bargain $22 at 54 East 64 St., NYC 10021 (I love this irreverent weekly paper) and *Time Out* (PO Box 10556, Riverton, NJ 08076) for $39.95 (great writing and a ton of info, weekly, covering EVERYTHING that's going on in the City). Add the great *International Herald Tribune* [(800) 882-2884] and you'll cover the world without the pain of having to rush all over to see it.

* *

Entertainment Weekly published a list of who they consider the "100 Greatest Movie Stars of All Time." Here are the top 15: (1) Bogart, (2) Kate Hepburn, (3) James Stewart, (4) Marilyn Monroe, (5) John Wayne, (6) Cary Grant, (7) Marlon Brando, (8) Clark Gable, (9) Charlie Chaplin, (10) Bette Davis, (11) Liz Taylor, (12) Ingrid Bergman, (13) Paul Newman, (14) Cagney; and (15) Spencer Tracy. Notice that only five of the 15 are living.

* *

In Japan they call it *karoshi* or death by overwork. There have been a trickle of *karoshi* cases coming before the courts in Japan. Suicides specifically related to overwork are also occurring and insurance companies are confused as to how to handle these claims. In Japan prior to the end of WWII, citizens owed their allegiance to the emperor. Now this allegiance has transferred to corporations -- thus the rise of *karoshi* cases.

* *

Questions: Will Hillary be indicted? Will Bill be impeached? Will Janet Reno save her job by refusing to appoint special counsels? Will Bill Clinton's fantastic run of luck hold up? Will Bill be able to somehow get rid of Kenneth Starr? Will Bill Clinton ever tell the truth about anything? Aw, let's just check with the cartoonists; they know what's happening, and they can still laugh about it.

* *

Nasty Trend: Wars between nations have died down; the new wars are within individual nations. Aside from Zaire, there are 30 intra-nation wars in progress today. Worst sufferers are the children, and it is estimated that there are 200,000 child soldiers now fighting. In a shocking report that has garnered little public attention, a UN piece entitled, "The Impact of Armed Conflict on Children," tells us, "More and more the world is being sucked into a desolate moral vacuum. This is a space devoid of the most basic human values; a space in which children are maimed; a space in which children are exploited as soldiers . . . There are few further depths to which humanity can sink." **Russell comment:** Sad enough, but now we hear about tens of thousands of child prostitutes in Asia and S. America, and ahem, yes, even in Europe and the US. The Twentieth Century, arguably the bloodiest and cruelest century in human history (by far the bloodiest in terms of the tens of millions of people who have been killed).

* *

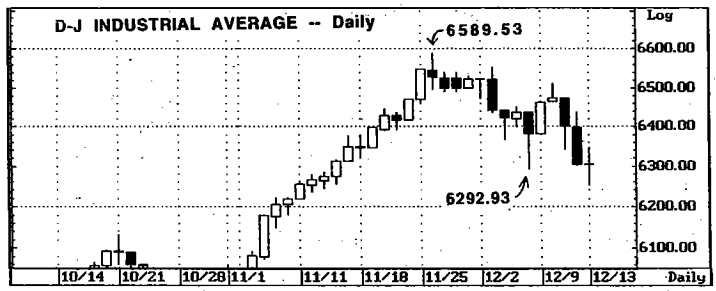
How long can anyone listen to rap, heavy metal and rock? I guess not forever. The record industry is now in the dumps and growth has literally come to a halt. I notice that here in S. California I'm hearing more Country and Western and soft jazz and less rock. The record industry complains that one problem is that there are too few durable stars. Or the problem may simply be misplaced optimism. Furthermore, the record industry's attempt to create new technology such as the mini-disk and the digital cassette has flopped. One executive said that the whole business has been built on rock-and-roll, but that's not what is selling now. In the last 18 months three of the biggest music chains, Camelot Music, Peaches Entertainment and Wherehouse Entertainment have filed for bankruptcy. Musicland, the nations largest chain with 1,000 outlets, reported a third quarter loss of $16 million. Ballads, anyone?

* *

Power and the desire for control run the world. How else can you explain Napoleon, Hitler, Mao, or leaders in a thousand areas including, of course, politicians. Even take a good man like Warren Buffett. Warren claims he's going to wait until he dies before he gives his multi-billions away. In the meantime, he keeps the power of his billions, and he obviously wants to make more. Buffett says that when he dies he's going to give his money to a foundation or set up a foundation dedicated to control world population. But every day that Buffett is alive the world's population continues to multiply -- geometrically. C'mon Warren, do it now.

TOP or TRADING RANGE? In this section I've turned to Japanese candle-stick charts in an attempt to throw a little more light on what's happening. The white rectangles represent up-days, the black denote down-days. The top of each white rectangle represents the close of that up-day. The bottom of each black rectangle represents the close of that down-day.

The thin vertical lines represent intra-day ranges. The high **close** for the Dow was recorded on November 25 at 6547.79. The next day (Nov. 26) set an **intra-day** record high for the Dow at 6589.53. From there the market sold off. On December 6 the market dropped sharply on the "Greenspan panic decline." On that



panic day the Dow **closed at 6381.94.** But the **intra-day panic low** came in considerably lower at **6292.93.**

From experience I've learned that **panic-low levels are extremely important.** In basically "constructive" markets, panic lows tend not to be violated or if they are violated, they are hopefully violated on dramatically reduced volume.

Last Thursday and again on Friday (Dec. 12 and 13) the Dow closed just a few points above the Greenspan panic low of 6292.93. Then on Monday (as this is written) the Dow opened strongly -- 40 points **above** the 6292.93 low.

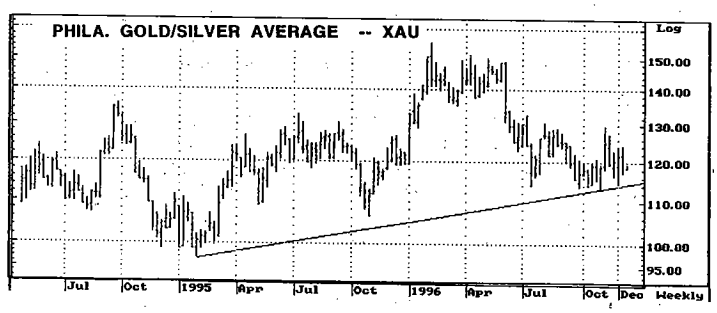
This is a difficult time to close this Letter, and obviously I have no way of knowing how the market will close. But my thought is this -- keep your eye on the Dow and that **6292.93** intra-day panic low. If the Dow can hold above that level and then push higher as the week goes on, the action will suggest that the market is in a trading range. However, if the Dow breaks below 6292.93 (particularly on rising volume), the odds are high, very high, that an important top has been formed.

GOLD: I don't want to be a smart-Alec, but I note that last week one of the most persistent bulls on gold finally threw in the sponge. Are there any bulls left in the gold universe? It sure doesn't seem like it.

But wait, do we believe the soothsayers and advisors or do we just watch where the money goes? I'll take the money every time. And there is one interesting facet in the gold picture. Yes, it's the Phila. Gold/Silver Average, known as **XAU.** This is a weekly chart of XAU going back to July of '95. And we do have rising bottoms. This is in contrast to the dismal performance of the metal, but historically the gold shares tend to move ahead of the metal, so maybe, just maybe, the rising trendline in XAU means something.

Interestingly, all of this is occurring while rumors continue to fly regarding the IMF and various central banks are either threatening to, or actually selling off, their gold reserves. So the gold news is rotten, but the action in the gold stocks is faintly bullish. Not a bad combination.

So oh yes, if the worst in the gold picture is past, you heard it here first.



CHANGE: All the talk last week and most of it is of Michael Ovitz leaving Disney. If the president of US Steel or Proctor quit today, the news would be over in a day or a few hours. But times have changed and the US now has a communications, entertainment and information economy. Disney is a huge $22 billion company in the new economy, and what happens at Disney is more important and news-worthy than what happens at US Steel. Do times and economies change? You bet they do.

NEXT MAILING: Dec. 31, 1996